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SUBJECT: DRC GOVERNMENT RAISES FUEL PRICES AGAIN

REF: 05 KINSHASA 1222

¶1. (U) The GDRC has raised fuel prices twice since May, following increases in the world market's oil price and a decline in the Congolese Franc's (CF) value. On August 3, the GDRC Ministries of Economy, Finance and Energy and members of the DRC Chamber of Commerce (FEC), agreed to increase the price of gasoline from 460 CF per liter (CF/L) to 490 CF/L and diesel fuel from 458 CF/L to 488 CF/L. On May 19, the same committee increased the gasoline price from 445 CF/L to 460 CF/L, a 30 percent increase since July 2005 (reftel). The official exchange rate was 462 CF/USD August 3 and 450 CF/USD May 30.

¶2. (U) IMF pressure has also likely been a cause of the increase. The Minister of Economy told EconCouns in May that the GDRC intended to increase fuel prices incrementally so that consumers did not suffer a price shock. The Minister acknowledged that the GDRC's fixed fuel prices had not kept pace with the world market but said that, in order to afford commercial distributors a marginal profit, the GDRC had been imposing fewer taxes. However, the IMF pressed the GDRC to increase fuel prices, since the subsidized price resulted in less government revenue.

¶3. (U) The price change immediately impacted local transportation in Kinshasa, although a local Shell distributor told EconOff that he does not expect supply or demand to change. On the first day of the August price increase, there were reports that more Congolese commuters left their cars at home and took a "taxi" to work. Essentially no public transportation exists in the DRC, so commuters must use privately-operated cars, vans and buses that are usually packed well beyond capacity and that travel a route the driver often pre-determines. (Note: The city of Kinshasa has begun a small-scale public service, using dozens of new TATA buses, some donated and some purchased, from India. End note.) The GDRC fixes the fare that private vehicle operators may charge (currently 150 CF per trip), but it does not set the distance that the drivers must travel. The GDRC has not yet increased the maximum fare in step with the increased fuel cost. Thus, to avoid revenue loss, drivers are transporting their passengers shorter distances, forcing travelers to take several taxis and thus pay an increased commuting price.

¶4. (SBU) Comment: It is no coincidence that the price change did not occur until after elections, as ministries likely feared the political impact of an increase. The larger August increase may impact the consumer inflation rate by increasing both direct transportation costs and indirect costs such as food prices. Post's market survey indicates that inflation has been moderate to date, with a projected annual inflation rate of 12 percent. End comment.

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